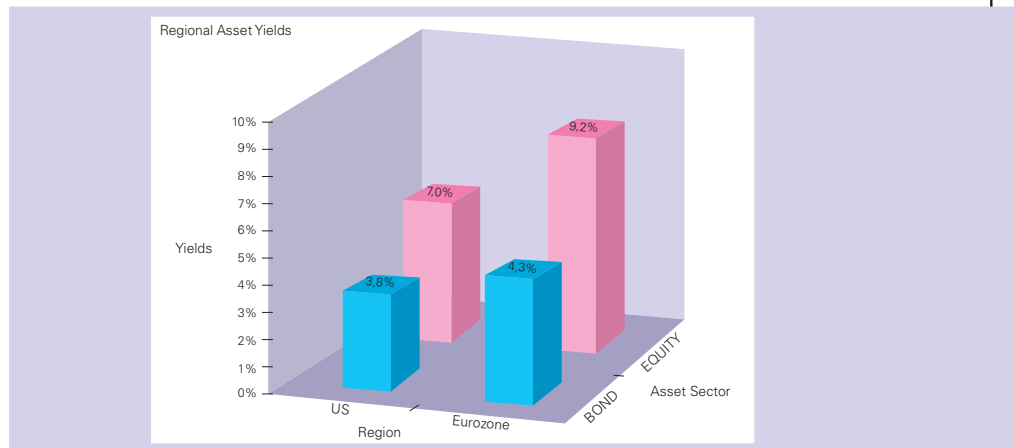


# Global Investment Perspective

June 2008

Strong energy prices continue to highlight inflationary pressures around the globe, as oil prices were particularly strong during this period, rising to US\$127. From developed markets (where the US headline inflation moderated from 4.0% in March to 3.9% in April) to the emerging markets (where Chinese headline CPI rose to 8.5% from 8.3%), inflation remains a serious concern. While growth still appears strong in emerging markets, economic growth continues to be weak but positive in developed markets. Preliminary q-o-q growth figures for 1Q08 for were 0.7% and 0.2%, for the Eurozone and US respectively.

The combination of higher inflation and oil prices has increased the risks in the government bond markets, as yields remains very low relative to history and could be pushed higher. The increased inflation risks, coupled with the fact that equities appear attractively priced relative to bonds, leads us to have a more balanced view on the outlook for both equities and bonds. This is for a 6-month to 1-year timeframe. But we continue to emphasize that volatility is likely to remain elevated, thus suggesting caution against any aggressive asset allocation position in portfolios.



## Market

### US

#### Equities Are Offering An Attractive Yield But Risks To Growth And Earnings Remain

Equities are now offering a higher yield than the yield on bonds, a factor that is seen as positive and leads us to have a more balanced view relative to bonds. Yet we continue to highlight the risks to economic and earnings growth.

### Europe

#### Macro Data Suggests There Are Weak Patches In The Economy

Valuations are attractive on a historical basis and the risk premium for equities is now relatively attractive. But the risks to growth suggest a neutral view relative to bonds, and relative to other major equity markets.

## Interest Rate / Fixed Income

## Currency

### Indonesia

#### Strong Earnings And Commodity Rallies Supported Equities

Q1 companies earnings that were reported to be higher than analysts estimates, rallies in commodity prices, and first quarter GDP data that was reported above 6% (y-o-y), all supported Indonesian equities to perform higher in May. But inflation pressure that could lead to rate hike may limit the upside potential.

### Asia ex-Japan

#### Inflation Now A Key Risk

The region continues to be supported by strong structural growth. But weakening global growth and inflation, both continue to be key risks, which may limit the upside potential given valuations are not at bargain levels.

### US

#### Inflation Reduces Attractiveness Of Government Bonds

The current high inflation is a big negative factor especially for long dated bonds as it could lead to higher interest rates and yields. We have moved from positive to neutral on this segment relative to riskier segments like High Yield.

### Eurozone

#### High Inflation Will Likely See ECB Keep Rates On Hold Despite Weak Growth

We continue to expect the European Central Bank to keep the rate on the main refinancing operations at 4% for the rest of the year, but we see the risks tilted to the upside. Given the improvement in risk appetite and inflation risk, we shift our view from positive to neutral relative to the riskier segments.

### USD

#### Attractive Valuation But Lacks Catalyst For Appreciation

Based on valuation, the USD is appealing but factors like the interest rate differential suggest cautiousness, causing us to reiterate our neutral view.

### EUR

#### Overvalued But Will Still Benefit From A Favorable Interest Rate Differential

On valuation measures, the Euro continues to look overvalued versus the USD. But there could continue to be volatility in the currency, in either direction, and there are no likely catalysts for a sustainable depreciation. The currency can also still benefit from favourable interest rate differentials.

### Emerging Markets

#### Inflation Is A Growing Concern For Equities

Oil-exporting countries continue to benefit from high prices, but inflation will continue to be a problem for emerging countries overall. Valuations are not cheap given the underlying risks to global growth.

### COMMODITY

#### Oil - Prices Could Soften Over The Year

We continue to see high oil demand in emerging markets, and continued supply constraints, which may continue to support higher oil prices in the near-term. But we expect that oil prices would soften this year as global growth slows.

### Emerging Markets Debt

#### Market Volatility, Poor Valuations And High Inflation Are Negative Factors

Persistent market volatility, inflation and poor valuations continue to negatively affect emerging market debt in the medium-term.

### Indonesia

#### Risk To Inflation Is Pressuring Bond Prices

Bond auctions held by the government in order to finance budget deficit and risk of inflation continued pushing yields higher and pressuring bond prices in near-term.

### High Yield

#### Appealing Valuations And Positive Sentiment Are Encouraging

Volatility has fallen over the past two months, and increasing risk appetite is supportive of the asset class, thus causing a shift of view from negative to neutral on high yield bonds relative to the government bonds.

### GBP

#### Expensive Valuation But High Interest Rates May Provide Near Term Support

The economic slow down and housing market continues to negatively affect the GBP but high interest rates could provide some support for the currency in the near term. However, on long-term valuations measures, the GBP is overvalued against the USD.

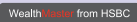
### IDR

#### Central Bank Continued Guarding The Currency

Inflation rate that has threaten to rise faster on the back of rising oil prices, drove Bank Indonesia to guard the rupiah around 9300 level, and will continue to do so in the near term.

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